

PERAC AUDIT REPORT



Somerville Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2004 / PERAC 04: 12-083-05



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

February 9, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Somerville Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Carol Niemira and James Tivnan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Somerville Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

1. Cash Reconciliation

A review of the bank reconciliation for the Bank of America/Fleet checking account used to disburse retirement benefits for the period ending December 31, 2004 revealed sixty checks outstanding for more than six months. These outstanding checks totaled \$22,375.05. In addition, there was a \$626.12 unexplained variance between the adjusted bank balance and the general ledger dating back to December 31, 2003. A more recent reconciliation for activity posted through November 2005 revealed sixty-seven checks outstanding for more than six months. These outstanding checks totaled \$27,015.36. In addition, there was a \$745.74 unexplained variance between the adjusted bank balance and the general ledger.

A review of the bank reconciliation for a second Bank of America/Fleet checking account used to pay expenses for the period ending December 31, 2004 revealed seven checks outstanding for more than six months. These outstanding checks totaled \$3,169.44. In addition, there was an \$81.80 unexplained variance between the adjusted bank balance and the general ledger dating back to October 31, 2003. This finding demonstrates a lack of research and resolution concerning stale checks outstanding as identified during the reconciliation process.

The reconciliation process is not being completed on a timely basis. Current reconciliations were requested by the System from the Treasurer. The most recent reconciliations provided were for November 2005. Reconciliations should have been completed through February 2006.

Recommendation: Checks outstanding more than six months should be researched so that proper voiding and updating of these items can be completed. Journal entries should be made to the general ledger on a timely basis. A journal entry to adjust the general ledger balance to agree with the adjusted bank balance should be made as a function of every month's bank reconciliation. This will eliminate adjustments consisting of unexplained variances that carryover from month to month in consecutive reconciliations.

The Board should insist that the reconciliation process be completed on a timelier basis. If the retirement Board does not receive future reconciliations by the end of the following month, they should request the reconciliation in writing from the Treasurer's Office. Adjusting journal entries should be made at year end to clean up outstanding items and remove unexplained variances from the results. The Board should resolve to periodically review the specifics of each reconciliation at their monthly meeting.

Board Response:

The Chief Financial Officer for the City of Somerville had advised the SRB that due to changes in Personnel, the process of reconciling the cash accounts of the SRS has been resolved.

Somerville Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

2. Board Member Attendance

A review of Board member attendance indicated that the ex-officio member missed 31% of the Board meetings in 2005. If only regularly-scheduled meetings are included in the count, the member was absent 25% of the time. During the audit period, 2003-2004, his absence level was 21% in 2004 and negligible in 2003.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. An absentee rate of twenty-five percent or more is considered excessive. It is the Board's responsibility to advise members to make every effort to uphold their duties to the System. The Board may want to consider changing the times of Board meetings in order to accommodate the ex-officio member's schedule.

3. Expense Budget

The Board votes to approve the administrative budget as a lump-sum total, rather than being presented with an itemized breakdown. The Administrator arrives at this figure by taking the previous fiscal year's total expenditures and estimating an adjustment for the coming year.

Recommendation: An itemized budget should be submitted for Board approval pursuant to G.L. c. 32, 22(5). Estimates can be based on the expenditure categories represented by Expense Fund ledger numbers and reported annually on the Disbursements page of the Annual Statement. A copy of the approved budget should be included or attached to the Minutes.

Board Response:

FY 2008 Appropriation data submitted included an itemized breakdown for expenses.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding all findings.

Somerville Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

FOR THE PERIOD ENDING DECEMBER 31,

ASSETS	<u>2004</u>	<u>2003</u>
Cash	\$7,719,691	\$22,121,971
Short Term Investments	0	0
Fixed Income Securities	9,951,745	6,911,234
Equities	63,804,151	55,723,395
Pooled Short Term Funds	0	0
Pooled Domestic Equity Funds	15,365,759	5,461,833
Pooled International Equity Funds	7,426,040	5,791,734
Pooled Global Equity Funds	0	0
Pooled Domestic Fixed Income Funds	30,625,611	27,290,321
Pooled International Fixed Income Funds	0	0
Pooled Global Fixed Income Funds	0	0
Pooled Alternative Investment Funds	1,525,991	561,794
Pooled Real Estate Funds	15,206,840	13,484,309
Pooled Domestic Balanced Funds	0	0
Pooled International Balanced Funds	0	0
Interest Due and Accrued	123,838	101,008
Accounts Receivable	750,843	310,979
Accounts Payable	0	(269,350)
TOTAL	<u>\$152,500,509</u>	<u>\$137,489,228</u>
FUND BALANCES		
Annuity Savings Fund	\$42,424,771	\$39,656,636
Annuity Reserve Fund	17,417,831	17,947,410
Pension Fund	2,695,755	2,087,545
Military Service Fund	7,329	7,285
Expense Fund	0	0
Pension Reserve Fund	89,954,824	77,790,352
TOTAL	<u>\$152,500,509</u>	<u>\$137,489,228</u>

Somerville Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE TWO - YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$38,759,354	\$16,647,026	\$2,308,288	\$7,211	\$0	\$63,972,306	\$121,694,185
Receipts	4,714,580	492,305	9,482,158	74	881,190	18,510,574	34,080,881
Interfund Transfers	(2,946,426)	2,879,238	4,759,717	0	0	(4,692,528)	0
Disbursements	<u>(870,872)</u>	<u>(2,071,158)</u>	<u>(14,462,617)</u>	<u>0</u>	<u>(881,190)</u>	<u>0</u>	<u>(18,285,838)</u>
Ending Balance (2003)	39,656,636	17,947,410	2,087,545	7,285	0	77,790,352	137,489,228
Receipts	4,961,389	519,895	11,484,196	44	1,238,201	17,226,622	35,430,347
Interfund Transfers	(1,057,047)	1,049,408	5,069,789	0	0	(5,062,150)	0
Disbursements	<u>(1,136,207)</u>	<u>(2,098,882)</u>	<u>(15,945,775)</u>	<u>0</u>	<u>(1,238,201)</u>	<u>0</u>	<u>(20,419,065)</u>
Ending Balance (2004)	<u>\$42,424,771</u>	<u>\$17,417,831</u>	<u>\$2,695,755</u>	<u>\$7,329</u>	<u>\$0</u>	<u>\$89,954,824</u>	<u>\$152,500,509</u>

Somerville Retirement System

STATEMENT OF INCOME

**FOR THE TWO - YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2004**

	2004	2003
Annuity Savings Fund:		
Members Deductions	\$3,933,018	\$3,939,399
Transfers from other Systems	736,149	273,961
Member Make Up Payments and Redeposits	55,853	91,736
Member Payments from Rollovers	4,113	40,755
Investment Income Credited to Member Accounts	<u>232,257</u>	<u>368,730</u>
Sub Total	<u>4,961,389</u>	<u>4,714,580</u>
Annuity Reserve Fund:		
Investment Income Credited Annuity Reserve Fund	<u>519,895</u>	<u>492,305</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	313,772	60,910
Received from Commonwealth for COLA and Survivor Benefits	833,645	539,984
Pension Fund Appropriation	<u>10,336,779</u>	<u>8,881,264</u>
Sub Total	<u>11,484,196</u>	<u>9,482,158</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited Military Service Fund	<u>44</u>	<u>74</u>
Sub Total	<u>44</u>	<u>74</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to Expense Fund	<u>1,238,201</u>	<u>881,190</u>
Sub Total	<u>1,238,201</u>	<u>881,190</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	81,656	148,166
Pension Reserve Appropriation	0	4,130
Interest Not Refunded	10,080	11,529
Miscellaneous Income	400	0
Excess Investment Income	<u>17,134,486</u>	<u>18,346,749</u>
Sub Total	<u>17,226,622</u>	<u>18,510,574</u>
TOTAL RECEIPTS	<u>\$35,430,347</u>	<u>\$34,080,881</u>

Somerville Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE TWO - YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2004**

Annuity Savings Fund:	<u>2004</u>	<u>2003</u>
Refunds to Members	\$692,153	\$524,301
Transfers to other Systems	<u>444,054</u>	<u>346,571</u>
Sub Total	<u>1,136,207</u>	<u>870,872</u>
Annuity Reserve Fund:		
Annuities Paid	1,984,364	1,883,748
Option B Refunds	<u>114,519</u>	<u>187,410</u>
Sub Total	<u>2,098,882</u>	<u>2,071,158</u>
Pension Fund:		
Pensions Paid		
Regular Pension Payments	8,618,967	8,082,387
Survivorship Payments	510,919	444,318
Ordinary Disability Payments	126,493	116,944
Accidental Disability Payments	2,539,200	2,443,731
Accidental Death Payments	1,213,039	1,141,929
Section 101 Benefits	36,421	33,790
Redeposited Retirement Allowance	1,212	(715)
3 (8) (c) Reimbursements to Other Systems	661,645	125,590
State Reimbursable COLA's Paid	855,245	912,185
City Reimbursable COLA's Paid	1,264,872	1,027,858
Section 90 A, C, D Paid	<u>117,762</u>	<u>134,601</u>
Sub Total	<u>15,945,775</u>	<u>14,462,617</u>
Military Service Fund:		
Return to Municipality for Members Who		
Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	15,000	15,125
Salaries	206,527	213,310
Legal Expenses	13,434	0
Fiduciary Insurance	776	739
Service Contracts	8,439	13,487
Travel Expenses	4,208	6,636
Administrative Expenses	39,583	50,363
Management Fees	912,572	547,699
Custodial Fees	37,663	33,831
Consultant Fees	<u>0</u>	<u>0</u>
Sub Total	<u>1,238,201</u>	<u>881,190</u>
TOTAL DISBURSEMENTS	<u>\$20,419,065</u>	<u>\$18,285,838</u>

Somerville Retirement System

INVESTMENT INCOME

**FOR THE TWO - YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2004**

	2004	2003
Investment Income Received From:		
Cash	\$189,113	\$371,324
Short Term Investments	0	0
Fixed Income	571,283	397,246
Equities	686,825	303,814
Pooled or Mutual Funds	<u>3,911,159</u>	<u>3,196,357</u>
TOTAL INVESTMENT INCOME	<u>5,358,380</u>	<u>4,268,741</u>
Plus:		
Realized Gains	860,547	8,931,061
Unrealized Gains	17,943,234	9,026,163
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>123,838</u>	<u>101,008</u>
Sub Total	<u>18,927,620</u>	<u>18,058,231</u>
Less:		
Decrease in Amortization of Fixed Income Securities		
Paid Accrued Interest on Fixed Income Securities	(89,759)	(9,042)
Realized Loss	(1,992,434)	(1,641,662)
Unrealized Loss	(2,977,916)	(487,301)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(101,008)</u>	<u>(99,920)</u>
Sub Total	<u>(5,161,117)</u>	<u>(2,237,925)</u>
NET INVESTMENT INCOME	<u>19,124,882</u>	<u>20,089,047</u>
Income Required:		
Annuity Savings Fund	232,257	368,730
Annuity Reserve Fund	519,895	492,305
Military Service Fund	44	74
Expense Fund	<u>1,238,201</u>	<u>881,190</u>
TOTAL INCOME REQUIRED	<u>1,990,397</u>	<u>1,742,298</u>
Net Investment Income	<u>19,124,882</u>	<u>20,089,047</u>
Less: Total Income Required	<u>1,990,397</u>	<u>1,742,298</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$17,134,486</u>	<u>\$18,346,749</u>

Somerville Retirement System

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$7,719,691	5.09%	100
Short Term	0	0.00%	100
Fixed Income	9,951,745	6.56%	
Equities	63,804,151	42.08%	
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	15,365,759	10.13%	
Pooled International Equity Funds	7,426,040	4.90%	
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	30,625,611	20.20%	
Pooled International Fixed Income Funds	0	0.00%	
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	1,525,991	1.01%	
Pooled Real Estate Funds	15,206,840	10.03%	
Pooled Domestic Balanced Funds	0	0.00%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	0	0.00%	100
GRAND TOTALS	<u>\$151,625,828</u>	<u>100.00%</u>	

For the year ending December 31, 2004, the rate of return for the investments of the Somerville Retirement System was 14.23%. For the five-year period ending December 31, 2004, the rate of return for the investments of the Somerville Retirement System averaged 6.29%. For the twenty-year period ending December 31, 2004, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Somerville Retirement System was 9.99%.

Somerville Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

The Somerville Retirement System submitted the following supplementary investment regulations:

None (All previously-approved supplementary investment regulations have been rescinded per PERAC approval letter dated March 2, 2001.)

Somerville Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Somerville Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by

Somerville Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity

Somerville Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Somerville Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on: December 26, 1984

Rules & Regulations (amended 1994)

Regularly employed part-time employees working a minimum of twenty (20) hours per week must join the retirement system upon first date of employment;

Somerville Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

Provisional or temporary part time employees working a minimum of twenty (20) hours per week must join the retirement system after working for six (6) consecutive months;

No employees may join the retirement system unless they work a minimum of twenty (20) hours per week;

All non-elected board members must join the retirement system upon the first date of employment;

Election department employees paid by name for census are not eligible for membership in the retirement system;

All new employees shall be examined by a physician and a written report shall be filed in the retirement system prior to their acceptance in the retirement system;

Board members shall receive one (1) year of service for each year of service;

Part-time employees who work at least twenty (20) hours per week shall receive one (1) year of service for each year of service;

Seasonal part-time employees who work at least twenty hours per week for seven (7) months or for the full season whichever is larger shall receive one (1) year of service of each year of service;

The following formula shall be used for all hourly persons working for less than twenty (20) hours per week and for those seasonal employees who do not work for at least seven (7) months or the full season whichever is longer:

- number of hours worked per year divided by twenty (20)
- divided by the normal working period of the position
- multiplied by 12 months = creditable service granted.

April 24, 1985

Classification

To classify licensed electricians employed by the Somerville Housing Authority in Group 2 as of March 14, 1985.

March 28, 1988

Membership

Persons who were employed by the City of Somerville prior to January 1, 1984 and are being paid out of Federal Funds will become members of the Somerville Retirement System at an annual contribution rate of 7% due to the fact that they had been denied membership prior to that date.

August 19, 1994

Creditable Service

All members of the Somerville Retirement System whether they be full time or part-time shall be granted 12 months creditable service for each full year of membership.

Somerville Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

November 29, 1994

Membership

To allow full-time, including provisional and temporary, employees to join the Somerville Retirement System immediately upon employment.

August 16, 1995

Monies Paid

Hazardous Duty Material monies paid to Somerville Fire Department employees shall be considered regular compensation.

May 19, 1998

Creditable Service

1). That persons employed by the Election Department for working on the “census” may not pay a makeup for this time.

2). That draftsman (interns) hired by the Department of Public Works on a temporary basis will not join the Somerville Retirement System.

Somerville Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Finance Director/City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Edward F. Bean, Jr.

Appointed Member:	Lawrence Murphy	Term Expires:	Until successor is named
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Elected Member:	John M. Memory	Term Expires:	1/4/2007
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Elected Member:	Mary A. Phinney	Term Expires:	1/5/2005
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Appointed Member:	John E. Rourke	Term Expires:	1/5/2006
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$500,000 per Board member
Elected Member:)	Western Surety Company
Appointed Member:)	
Staff Employee:)	

Somerville Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Mellon Human Resources & Investor Solutions as of January 1, 2004.

The actuarial liability for active members was	\$103,890,868
The actuarial liability for retired members was	142,907,042
The total actuarial liability was	246,797,910
System assets as of that date were	145,850,905
The unfunded actuarial liability was	<u>\$100,947,005</u>
 The ratio of system's assets to total actuarial liability was	 59.1%
As of that date the total covered employee payroll was	\$43,875,838

The normal cost for employees on that date was 8.10% of payroll

The normal cost for the employer was 5.10% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$145,850,905	\$246,797,910	\$100,947,005	59.1%	\$43,875,838	230.1%
1/1/2001	134,378,449	204,557,523	70,179,074	65.7%	44,779,084	156.7%
1/1/1998	103,343,920	168,736,337	65,392,417	61.2%	38,969,295	167.8%
1/1/1995	67,754,043	127,119,756	59,365,713	53.3%	31,711,990	187.2%
1/1/1992	58,351,419	115,469,624	57,118,205	50.5%	28,547,090	200.1%

Somerville Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE TWO - YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	17	19	21	32	47	10	29	74	53	13
Ordinary Disability	0	0	0	1	1	0	0	1	1	0
Accidental Disability	6	4	1	1	5	0	1	6	4	8
Total Retirements	23	23	22	34	53	10	30	81	58	21
Total Retirees, Beneficiaries and Survivors	887	881	917	902	952	896	935	976	995	985
Total Active Members	1,116	1,134	1,143	1,182	1,198	1,232	1,252	1,185	1,068	1,107
Pension Payments										
Superannuation	\$5,028,931	\$5,108,656	\$5,441,220	\$5,414,991	\$6,244,897	\$5,935,567	\$6,287,989	\$7,033,415	\$8,082,387	\$8,618,967
Survivor/Beneficiary Payments	160,771	275,747	275,999	286,194	413,208	286,560	279,909	422,269	444,318	510,919
Ordinary Disability	271,796	160,771	151,544	146,619	208,637	167,586	126,367	124,925	116,944	126,493
Accidental Disability	2,106,140	2,172,179	2,225,014	2,321,271	2,482,536	2,392,735	2,319,227	2,364,287	2,443,731	2,539,200
Other	<u>2,380,653</u>	<u>2,395,942</u>	<u>2,565,832</u>	<u>2,519,137</u>	<u>1,554,426</u>	<u>2,991,905</u>	<u>3,152,144</u>	<u>3,495,355</u>	<u>3,375,237</u>	<u>4,150,195</u>
Total Payments for Year	<u>\$9,948,291</u>	<u>\$10,113,295</u>	<u>\$10,659,609</u>	<u>\$10,688,212</u>	<u>\$10,903,704</u>	<u>\$11,774,353</u>	<u>\$12,165,636</u>	<u>\$13,440,251</u>	<u>\$14,462,617</u>	<u>\$15,945,775</u>

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